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Private Sector Division

Financial report and statements for the year ended 31 December 2004

Summary

This document presents the results achieved by the UNICEF Private Sector Division (PSD) for the year ended 31 December 2004.

The total net income from PSD activities for the year was $291.1 million for regular resources, which was $1.7 million (0.6 per cent) higher than the $289.4 million achieved in 2003. The total net income for 2004 includes $55.9 million from UNICEF cards and gift sales, $250.7 million from private sector fund-raising activities, a negative exchange rate adjustment of $1.3 million, and investment fund expenditures of $14.2 million. In addition, $218.8 million ($172.2 million in 2003) was raised from PSFR activities, which were earmarked for other resources. The net consolidated income for 2004, including both regular and other resources, amounted to $509.9 million, an increase of $48.3 million compared with the 2003 net consolidated income of $461.6 million.

* E/ICEF/2005/10.

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Financial report for the year ended 31 December 2004

A. An overview of the results

1. The total net income contribution to UNICEF regular resources from PSD activities was $291.1 million. This compares with $289.4 million in 2003, an increase of $1.7 million (0.6 per cent). The contribution consists of $55.9 million net operating income from the sale of UNICEF cards and gifts, $250.7 million net operating income from private sector fund-raising activities, Investment Fund Expenditures of $14.2 million and an exchange rate adjustment of $1.3 million.

2. Gross proceeds from UNICEF card and gift sales amounted to $161.5 million, compared with $151.5 million in 2003. The increase in gross proceeds was partly due to improved market conditions, a small increase in sales prices in some markets and the weakening of the United States dollar against the euro and the Japanese yen.

3. The net operating income from private sector fund-raising activities related to regular resources was $250.7 million in 2004, compared with $249.5 million in 2003, an increase of $1.2 million. In addition, $218.8 million were raised from private sector fund-raising activities, which were earmarked by partners for allocation to other resources, and this represents an increase of $46.6 million compared with the $172.2 million raised in 2003.

B. Financial statements for the year ended 31 December 2004

4. The three financial statements that follow are supported by the notes to the financial statements, including a summary of significant accounting policies (paras. 6-15).

Statement I

Statement of income and expenditure for the year ended 31 December 2004

(In thousands of US dollars)

	Note	31 December 2004	%	31 December 2003	%	Variance Increase/(decrease)	%
Gross proceeds — cards and gifts	3	161 518	100.0	151 469	100.0	10 049	6.6
Less: National Committees' expenditures, commissions and direct expenses at field offices	4	58 976	36.5	52 413	34.6	6 563	12.5
Net proceeds		102 542	63.5	99 056	65.4	3 486	3.5
Less: Cost of goods delivered	5	30 188	18.7	29 128	19.2	1 060	3.6
		72 354	44.8	69 928	46.2	2 426	3.5
Less: Operating costs	6	23 271	14.4	20 213	13.3	3 058	15.1
Provision for uncollectible accounts receivable	7	1 939	1.2	8 148	5.4	(6 209)	(76.2)
		47 144	29.2	41 567	27.5	5 577	13.4
Add: Other income	8	8 799	5.4	5 511	3.6	3 288	59.7
Net operating income — cards and gifts	9	55 943	34.6	47 078	31.1	8 865	18.8
Net operating income — private sector fund-raising*	10	250 671		249 517		1 154	0.5
Less: Investment Fund Expenditures	11	14 198		13 502		696	5.2
Total net operating income	**12**	**292 416**		**283 093**		**9 323**	**3.3**
Less: Exchange rate adjustment	13	1 291		(6 323)		(7 614)	(120.4)
Total net income	**14**	**291 125**		**289 416**		**1 709**	**0.6**

The accompanying notes form an integral part of this statement and should be read in conjunction with it.

* Excluding $218.8 million recognized as other resources compared with $172.2 million in 2003. This is shown in the UNICEF Financial Statements.

(*Signed*) Terry **Brown**
Comptroller

Statement II

Statement of assets and liabilities as at 31 December 2004

(In thousands of United States dollars)

	Note	*As at 31 December 2004*	*As at 31 December 2003*	*Increase/(decrease)*
ASSETS				
Accounts receivable	15	305 011	312 504	(7 493)
Less: Allowance for exchange rate fluctuation and uncollectible accounts		15 965	28 241	(12 276)
Net accounts receivable	16	289 046	284 263	4 783
Inventory	17	5 697	5 046	651
Prepaid expenses	18	43	42	1
Capital assets, net of accumulated depreciation	19	0	75	(75)
TOTAL ASSETS		**294 786**	**289 426**	**5 360**
LIABILITIES				
Bank	20	26	910	(884)
Accounts payable	21	2 642	5 798	(3 156)
UNICEF inter-office account	22	292 118	282 718	9 400
TOTAL LIABILITIES		**294 786**	**289 426**	**5 360**

The accompanying notes form an integral part of this statement and should be read in conjunction with it.

(*Signed*) Terry **Brown**
Comptroller

Statement III

Statement of the results for the year ended 31 December 2004 compared with the approved budget

(In millions of United States dollars)

	Note 23	Actual	Budget[a]	Variance (Increase/(decrease)) $	%
Income					
Gross proceeds — cards and gifts	(a)	161.5	142.0	19.5	13.7
Less: National Committees' expenditures[b]		55.0	37.0	18.0	48.6
Net proceeds		106.5	105.0	1.5	1.4
Add: Other income		8.8	8.0	0.8	10.0
Net proceeds — cards and gifts		115.3	113.0	2.3	2.0
Net proceeds — private sector fund-raising	(b)	261.0	220.0	41.0	18.6
Total net proceeds (regular resources)	**(c)**	**376.3**	**333.0**	**43.3**	**13.0**
Expenditures					
Cost of goods delivered		30.2	30.5	(0.3)	(1.0)
Marketing expenditures[b]		22.4	23.5	(1.1)	(4.7)
Support Services		17.1	18.6	(1.5)	(8.1)
Investment Fund Expenditures		14.2	16.4	(2.2)	(13.4)
Total expenditures		**83.9**	**89.0**	**(5.1)**	**(5.7)**
Total net income before adjustments		**292.4**	**244.0**	**48.4**	**19.8**
Adjustments					
Exchange rate adjustment		1.3	—	1.3	—
Total net income after adjustments — regular resources	**(d)**	**291.1**	**244.0**	**47.1**	**19.3**
Add: Other resources — private sector fund-raising		218.8	180.0	38.8	21.6
Net consolidated income — regular resources and other resources	**(e)**	**509.9**	**424.0**	**85.9**	**20.3**

[a] In accordance with Executive Board decision 2004/2, the approved budget reflected is the medium projection (column II, Table 7 of document E/ICEF/2004/AB/L.1).

[b] National Committees' expenditures exclude commissions and direct expenses at field offices. These are included in marketing expenditures.

C. Notes to the financial statements

Note 1. Objectives and activities

5. PSD, in cooperation with National Committees for UNICEF, field offices and other partners, raises funds for the programmes of UNICEF. This activity makes people aware of the work of UNICEF and gives them the opportunity to be involved in its work.

Note 2. Summary of significant accounting policies

6. The accounts are maintained in accordance with the Financial Regulations and Rules of the United Nations Children's Fund (E/ICEF/FINANCIAL RULES/1) and with the Financial Regulations and Rules of the United Nations Children's Fund, Special Supplement, Greeting Card Operation (E/ICEF/FINANCIAL RULES/1/Add.1).

7. The accounting period (fiscal year) of PSD is 1 January to 31 December, pursuant to Executive Board decision 1996/22 C.5 (E/ICEF/1996/12/Rev.1).

8. The accounts of PSD are incorporated into the UNICEF accounts as at 31 December. Consistent year-end cut-off procedures are in effect to incorporate PSD accounts into the UNICEF financial statements.

9. The accounting unit is the United States dollar. The equivalent in United States dollars of other currencies is established on the basis of the United Nations operational rates of exchange on the transaction date.

10. Gross proceeds from the sale of UNICEF cards and gifts are accrued on the basis of the Revenue and Expenditure Reports received from sales partners shortly after the year-end. They are recorded in local currency and converted into United States dollars at the United Nations operational rates of exchange prevailing on 31 December. The accrual is adjusted in the following year upon receipt of the final Revenue and Expenditure Report. In cases where the provisional Revenue and Expenditure Report is not received from a sales partner in time for the year-end closure of accounts, gross proceeds are accrued based on deliveries to that sales partner for the year less an allowance for unsold goods.

11. Assets and liabilities in currencies other than United States dollars are valued for accounting purposes at the prevailing United Nations rates of exchange. Any variance in valuation caused by fluctuation of those rates is accounted for as income or loss and, starting from 2003, is included in the statement of income and expenditure under exchange rate adjustment. In accordance with PSD accounting policy, a provision to cover accounts receivable that are considered doubtful for collection may be established. This provision, if made, is shown as a deduction from the accounts receivable on the statement of assets and liabilities.

12. The inventory of work in process and finished goods is valued at standard cost, while raw materials are valued at moving average cost. It is PSD policy to write-down unsold cards and dated gifts at the end of the first sales campaign year and all other gifts at the end of the second sales campaign year. Gifts that have been written-down and carried forward are valued at their add-on cost. All publicity and promotion materials produced in the current campaign year, but relating to future campaign years, are shown at standard cost and are included in inventory.

13. Capital assets costing $100,000 or more are capitalized and depreciated over their estimated useful life.

14. Liabilities are accrued in the PSD accounts following recognized accounting standards, and appropriate cut-off procedures are followed consistently.

15. Income from private sector fund-raising activities and related expenses are recorded separately in the PSD accounts. The net proceeds raised by National Committees from private sector fund-raising activities for regular resources are recorded based on the provisional Revenue and Expenditure Reports submitted by the National Committees after the year-end. These are then adjusted in the following year upon receipt of the final Revenue and Expenditure Reports.

Statement I

Note 3. Gross proceeds — cards and gifts

16. Gross proceeds from UNICEF card and gift sales for 2004 amounted to $161.5 million, compared with $151.5 million in 2003, an increase of $10.0 million (6.6 per cent). The increase in gross proceeds was partly due to improved market conditions, a small increase in sales prices in some markets and the weakening of the United States dollar against the euro and the Japanese yen.

Note 4. National Committee expenditures, commissions and direct expenses at field offices

17. This item consists of the expenditures recorded by National Committees and other partners, commissions paid to consignees and direct operating expenses at UNICEF field offices. For 2004, this amounted to $59.0 million, an increase of $6.6 million (12.5 per cent) compared with 2003. Of this increase, $6.5 million is related to National Committees and $0.1 million to UNICEF field offices. A breakdown is given below:

	(In millions of United States dollars)			
			Increase (decrease)	
	2004	*2003*	*$*	*%*
National Committee expenditures/commissions	55.8	49.3	6.5	13.2
Field offices' expenses	3.2	3.1	0.1	3.2
Total	**59.0**	**52.4**	**6.6**	**12.5**

Note 5. Cost of goods delivered

18. The cost of goods delivered, freight, duties and taxes, and promotion materials amounted to $30.2 million, an increase of $1.1 million (3.6 per cent) compared with 2003. This is made up of a small decrease of $0.6 million (2.9 per cent) in the direct cost of goods, an increase of $1.0 million (37 per cent) compared with 2003 in costs associated with freight, duties and taxes due to a higher usage of air transportation,

and an increase of $0.7 million (12.1 per cent) in the costs of promotional materials. Details are presented below:

	(In millions of United States dollars)			
			Increase/(decrease)	
	2004	*2003*	*$*	*%*
Cost of goods delivered	20.0	20.6	(0.6)	(2.9)
Freight, duties and taxes	3.7	2.7	1.0	37.0
Promotion materials	6.5	5.8	0.7	12.1
Total	**30.2**	**29.1**	**1.1**	**3.6**

Note 6. Operating costs

19. Operating costs amounted to $23.3 million in 2004, an increase of $3.1 million (15.1 per cent) compared with 2003. While the costs related to card and gift sales increased by 24.0 percent compared with the previous year, operating costs of Operations and Finance increased by 13.8 per cent. The expenses are summarized below:

	(In millions of United States dollars)			
			Increase/(decrease)	
	2004	*2003*	*$*	*%*
Card and gift sales	6.2	5.0	1.2	24.0
Operations and finance	16.5	14.5	2.0	13.8
Director's office	0.6	0.7	(0.1)	(14.3)
Total	**23.3**	**20.2**	**3.1**	**15.1**

Note 7. Provision for uncollectible accounts receivable

20. The provision for 2004 amounted to $1.9 million, a decrease of $6.2 million (76.2 per cent) compared with 2003. The provision is to cover accounts receivable that may become irrecoverable. Accounts receivable deemed irrecoverable are written off.

Note 8. Other income

21. Other income is based on income reported by partners by 31 December and comprises the following:

(a) **Income from licensed products**, which includes royalties from special programmes, income from Nippon Telegraph and Telephone Corporation's Pressed Flower Telegram Programme in Japan, and income from the sale of National Committee products and other items;

(b) **Donations**, which represent contributions generated through PSD brochures/order forms;

(c) **Miscellaneous income related to financial operations**, which includes discounts on purchases, miscellaneous proceeds and refunds of unspent investment funds from National Committees.

22. Other income in 2004 amounted to $8.8 million, compared with $5.5 million in 2003. While miscellaneous income increased from $1.3 million to $3.1 million, the income from licensed products and donations increased by $0.7 million and $0.8 million, respectively. A comparison between 2004 and 2003 is summarized below:

	(In millions of United States dollars)			
			Increase/(decrease)	
	2004	*2003*	*$*	*%*
Licensed products	3.2	2.5	0.7	28.0
Donations	2.5	1.7	0.8	47.1
Miscellaneous income	3.1	1.3	1.8	138.5
Total	**8.8**	**5.5**	**3.3**	**60.0**

Note 9. Net operating income — cards and gifts

23. For the 2004 campaign, the net operating income from the sale of UNICEF cards and gifts amounted to $55.9 million, an increase of $8.8 million compared with 2003. As a percentage of gross proceeds, net operating income increased to 34.6 per cent from 31.1 per cent in 2003.

Note 10. Net operating income — private sector fund-raising

24. In 2004, total net proceeds from private sector fund-raising activities reported by partners by 31 December amounted to $261.0 million for regular resources, an increase of $2.5 million compared with 2003.

25. As presented in the following table, the net operating income from private sector fund-raising activities related to regular resources in 2004 amounted to $250.7 million compared with $249.5 million in 2003, an increase of $1.2 million (0.5 per cent). The net operating income from private sector fund-raising activities related to regular resources was net of the amount retained by the National Committees; operating expenses related to private sector fund-raising activities, including field office expenses; and research and development.

26. In addition to the net operating income from private sector fund-raising activities related to regular resources, $218.8 million were raised and earmarked to various UNICEF other resources projects. This amount is shown as a footnote to statement I in this financial report and included as income in the UNICEF financial statements.

27. Private sector fund-raising expenses for 2004 included $1.4 million for research and development to develop new methods and test fund-raising campaigns, compared with $1.5 million in 2003.

	(In millions of United States dollars)			
			Increase/(decrease)	
	2004	2003	$	%
Net proceeds	261.0	258.5	2.5	1.0
Less:				
Operating expenses	6.5	5.7	0.8	14.0
Field office expenses	2.4	1.8	0.6	33.3
Research and development	1.4	1.5	(0.1)	(6.7)
Net operating income	**250.7**	**249.5**	**1.2**	**0.5**

Note 11. Investment fund expenditures

28. To enable PSD to continue to fulfil its mandate in raising funds from the sale of cards and gift items and private sector fund-raising activities, the Executive Board approved for 2004 investment funds expenditures a budget of $16.4 million. The objective of investment funds is to increase the capacity of National Committees and UNICEF field offices to build a broader support base in raising funds from the private sector and for testing and evaluating new income-generating initiatives, with a primary focus on projects offering high rates of returns. In 2004, the total expenditure for investment funds was $14.2 million ($13.5 million in 2003).

Note 12. Total net operating income

29. The total net operating income from UNICEF card and gift sales and private sector fund-raising activities for regular resources amounted to $292.4 million, an increase of $9.3 million (3.3 per cent) compared with 2003. This represents PSD net operating income before exchange rate and prior years' adjustments.

Note 13. Exchange rate adjustment

30. The exchange rate adjustment in 2004 amounted to a loss of $1.3 million, compared with a gain of $6.3 million in 2003. Effective 2003, exchange rate variances are recorded in the financial period in which they arise.

Note 14. Total net income

31. After deducting exchange rate adjustment, the total net income from UNICEF card and gift sales and private sector fund-raising activities in 2004 was $291.1 million, an increase of $1.7 million (0.6 per cent) compared with $289.4 million in 2003.

Statement II

Note 15. Accounts receivable

32. Accounts receivable include amounts due from National Committees and other partners for revenues from UNICEF card and gift sales, private sector fund-raising activities, royalties and miscellaneous receivables. The gross accounts receivable as

at 31 December 2004 amounted to $305.0 million, a decrease of $7.5 million over the balance as at 31 December 2003.

Note 16. Net accounts receivable

33. In accordance with PSD accounting policy (see para. 11 above), a provision to cover accounts receivable that are considered doubtful for collection may be established. For 2004, the allowance for exchange rate fluctuation and provision for uncollectible accounts amounted to $16.0 million. Of this, $6.4 million is for uncollectible accounts and $9.6 million is the remaining balance of allowance for exchange rate fluctuation brought forward from the previous year. Net accounts receivable after deducting the allowance for exchange rate fluctuation and provision for uncollectible accounts of $16.0 million amounted to $289.0 million.

Note 17. Inventory

34. Inventory as at 31 December 2004 amounted to $5.7 million, an increase of $0.7 million (14 per cent) compared with the balance as at 31 December 2003. A comparison is presented below:

	(In millions of United States dollars)	
	2004	*2003*
Raw materials and work in process	2.7	2.6
Finished goods	3.0	2.4
Total	**5.7**	**5.0**

Note 18. Prepaid expenses

35. These represented payments made to suppliers for the production of PSD gifts and promotion materials for 2004 and future campaigns. Prepaid expenses as at 31 December 2004 amounted to $0.04 million, the same as the previous year.

Note 19. Capital assets, net of accumulated depreciation

36. These are stated at cost, less accumulated depreciation (see summary of capital assets as at 31 December 2004, presented below). In accordance with PSD accounting policies, capital assets costing $0.1 million or more are capitalized and depreciated over their estimated useful life. The decrease of $0.1 million in capital assets over the balance as at 31 December 2003 was due to depreciation of production machinery and leasehold improvements during the period. There was no new acquisition in 2004.

	(In millions of United States dollars)	
	2004	*2003*
Production machinery	1.1	1.1
Office equipment and leasehold improvements	1.6	1.6
Subtotal	**2.7**	**2.7**
Accumulated depreciation	(2.7)	(2.6)
Total	**0.0**	**0.1**

Note 20. Bank

37. The credit balance of $0.03 million as at 31 December 2004 comprises balances of PSD bank accounts and outstanding cheques drawn from PSD zero-balance bank accounts.

Note 21. Accounts payable

38. Total accounts payable as at 31 December 2004 amounted to $2.6 million, a decrease of $3.2 million compared with the balance as at 31 December 2003. Included in total accounts payable were liabilities to suppliers and National Committees.

Note 22. UNICEF inter-office account

39. This reflects the net result of transactions between PSD and other UNICEF offices, which, as at 31 December 2003, was $292.1 million. This amount includes monies advanced as working capital to PSD. PSD earnings for each fiscal period are transferred to UNICEF via this account.

Statement III

Note 23. Comparison of 2004 actual results with budget

40. Some major highlights of PSD performance in 2004 compared with the approved budget are as follows:

(a) Gross proceeds from UNICEF card and gift sales were $19.5 million, or 13.7 per cent more than budget;

(b) Net proceeds from private sector fund-raising activities were $41.0 million, or 18.6 per cent higher than the budgeted amount of $220.0 million;

(c) Total net proceeds from PSD-related activities (regular resources) were $43.3 million, or 13.0 per cent higher than budget;

(d) The total net income after adjustments (regular resources) was $47.1 million, or 19.3 per cent higher than the budget of $244.0 million;

(e) The net consolidated income for both regular resources and other resources was $85.9 million, or 20.3 per cent higher than the budget of $424.0 million.